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VOLUME ONE

MAY, 1920

NUMBER FIVE

HISTORY OF THE FIRM

By WILLIAM M. LYBRAND

(Continued)

Pittsburgh Office: The Pittsburgh office was opened in December, 1908. Mr. W. A. Staub was in charge there until 1911, at which time he moved to Chicago. He was succeeded by Mr. Elmer Staub and later by Mr. Dumbille. The office is now under the charge of Mr. G. R. Keast, who went there in March, 1917, from the Philadelphia office. The business has developed very satisfactorily and the Pittsburgh office is now firmly established. Mr. Keast is a C. P. A. of Pennsylvania.

Washington Office: Our Washington, D. C., office was established in 1919. It is located in the Union Trust Building and is in charge of Mr. K. Sheridan Hayes.

Professional Activities: The professional activities of the members of the firm have been so continuous, that it is difficult to tell of them without writing a considerable part of the history of accounting since the year 1897. Perhaps it will be best to begin with Pennsylvania, the good old solid State in which we first began business, and which will always retain its hold on our affections even though some of us no longer are within its borders.

Pennsylvania Institute of Certified Public Accountants: The first suggestion looking to the organization of the public accountants of Pennsylvania into an association, came from Mr. J. E. Sterrett, who has been one of the most active and influential members of the profession, and who

has worked untiringly and single-mindedly for its advancement.

His suggestion met with a favorable reception and in 1897 the Pennsylvania Association of Public Accountants was formed. Its first President was Mr. Heins, its first Secretary, Mr. Sterrett and its first Treasurer, Mr. Lybrand.

In 1896 the first Certified Public Accountant law, that of New York, was passed. The interest of the accountants in Pennsylvania, as well as in other States, in legislation of this character, had been aroused by this event, so that for the first two years of its history, the Association devoted itself chiefly to an effort to secure similar legislation for Pennsylvania.

Its efforts were successful and Pennsylvania had the honor of being the second State in the Union to enact Certified Public Accountant legislation, its C. P. A. law having been approved March 29, 1899. A great deal of credit is due the late Mr. C. N. Vollum for the work done by him in bringing this bill to the attention of the legislators and in keeping it before them persistently until it received favorable action. All the members of the Pennsylvania Association were deeply interested also in having this legislation enacted, and they supported Mr. Vollum in every way possible, but to him particularly belongs the credit of having secured the passage of the bill.

After the passage of C. P. A. legislation in 1899, the name of the Asso-

ciation was changed to the Pennsylvania Institute of Certified Public Accountants and Mr. C. N. Vollum became its President.

In 1902 Mr. Lybrand was elected President and during his term of office the Institute, which was still only an association of individuals, was incorporated under the laws of Pennsylvania. The by-laws were rewritten at that time and provision was made for the appointment of a number of committees, among others the Committee on Education.

About this time an educational movement, the sequel of which proved to be of importance, was undertaken by the Pennsylvania Institute. Perhaps it can best be told by printing an abstract from a report read at the Annual Convention of the Federation of Societies of Public Accountants held in Washington in 1903.

"On the important work done by the Institute on educational lines, Mr. Lybrand's report is quoted in full:"

"The Institute had long been impressed with the necessity of providing some means by which the young accountant determined to obtain his C. P. A. degree, might have the opportunity of obtaining some instruction that would help him in the C. P. A. examination, and more important still—that might impress him with the responsibilities of his position when he comes to practice, and instill in his mind the fundamentals of the profession.

"After a careful study of the situation the Committee on Education, of which Mr. J. E. Sterrett is chairman, decided to inaugurate an evening class under the direct control of the Institute. The course of instruction was to follow the lines of the four parts of the C. P. A. examination, namely, Theory of Accounts, Practical Accounting, Auditing and Commercial Law; and four in-

structors (one for each branch) were to be secured from among the members of the Institute.

"For the first year it was decided to open the class virtually only to assistants employed in the offices of members of the Society, with the exception that each member thereof might, if he chose, recommend one outside student. To cover expenses, a fee of \$10 was charged each student. The total enrollment was nineteen, which was about the capacity of the room in the member's office in which the class was held. This number was obtained without solicitation or advertising, and indeed an effort was necessary to keep down the number rather than to add to it.

"Each of the four instructors arranged for a course of about twelve lectures extending from October to May. The class met once each week for two hours, two subjects being covered in one evening and the remaining two the next week, and so on alternately.

"Although an occasional substitute was necessary, the courses as a whole were adhered to faithfully and at considerable sacrifice. The services of the instructors were rendered gratis, except for a nominal sum for expenses.

"The instructors were:

Theory of Accounts—Robert H. Montgomery.

Auditing—James W. Fernley.

Practical Accounting—Wm. M. Lybrand.

Commercial Law—H. G. Stockwell.

"The attendance of the students was good, taking into consideration out-of-town engagements and night work, and the interest was sustained to a satisfactory degree.

"At the close of the session, through the courtesy of the Committee on Education, a dinner was given at the Manufacturers' Club to the students and instructors. Several of the students spoke most appreciatively of the benefit which they had derived from the courses, and it was resolved to form a students' association to continue the work during the Summer.

"We are arranging to hold the classes during this coming year with the same instructors and under substantially the same plan. It is, of course, recognized that to continue the work indefinitely under conditions so exacting to the members of the society is impracticable, but we hope to give the movement a good enough start to warrant its being carried on by some educational institution."

This work was carried on for two years, the classes meeting in our office but in the meantime an effort had been made to arouse the interest of the University of Pennsylvania, with a view to establishing a night school to be conducted as part of the Wharton School of Finance. The University required that a certain sum for expenses be guaranteed before it would go ahead with the work. The interest of the Pennsylvania accountants in an educational movement of this kind was so keen that they agreed to guarantee the necessary sum. Accordingly the school was opened the following year and was successful from the start. It is now a large and flourishing institution, and it is a source of pardonable pride to the Pennsylvania accountants that they were instrumental in some degree, in starting it on its way.

The members of the firm who have been officers of the Pennsylvania Institute from the time that it was organized are as follows:

PRESIDENT

William M. Lybrand..1902-1904
Adam A. Ross.....1906-1908
T. Edward Ross.....1911-1913
Joseph M. Pugh.....1917-1919

VICE-PRESIDENT

T. Edward Ross.....1909-1911

SECRETARY

T. Edward Ross.....1901-1902
Adam A. Ross.....1904-1906
Joseph M. Pugh.....1908-1910

TREASURER

William M. Lybrand..1897-1901

Mr. Pugh, at the present time, is Vice-President of the Pennsylvania State Board of Examiners.

The Pennsylvania Institute has always been an active and influential State society. During its history of more than twenty years, its officers and members have always taken an important part in the promotion of all measures designed to further the interests of the profession of public accounting.

During the course of a speech made at the famous Atlantic City Convention of 1908, Mr. C. N. Vollum remarked that Philadelphia was said to be a "slow" city. He then proceeded to read a list of the "first" things that had happened in that city. It is a surprisingly long and important schedule (you had better read it in the 1908 Year Book) and it ended with "the first large University to incorporate with its curriculum the study of business and higher accounting and the first magazine devoted to higher accounting."

That magazine was "The Public Accountant" and, though short lived, it at least served to point the way. Its first number was issued in October, 1898 and it was continued until June, 1900, when it was taken over by the "Business World."

One of the few bound copies of this magazine is in our Philadelphia of-

fice. In turning over its pages, it was noted that the magazine was the "Official Organ, by resolution, of the Pennsylvania Association of Public Accountants and the Illinois Association of Public Accountants." Its editor was William Hobson Vollum, son of Mr. Vollum, and it apparently was published by "The Public Accounting Publishing Company, incorporated in Pennsylvania on December 31, 1899 and having for its officers, President, Charles N. Vollum; Vice-President, George Wilkinson; Treasurer, J. E. Sterrett; and Secretary, William M. Lybrand. The writer is obliged to confess to a total failure of memory regarding the ultimate fate of this company, and if there were minutes, as there must have been, they have long since disappeared.

Federation of Societies of Public Accountants: In 1902 Mr. George Wilkinson, then President of the Illinois Association of Public Accountants, read a paper at a meeting of that society, in which he set forth convincing arguments to prove that there was great need that a federation of State societies be formed in order that there might be a medium through which the various organizations could be brought into communication one with another, and the benefit of combined and harmonized effort for the good of the profession thereby be secured.

The project was received with favor and a committee was appointed to draft a plan, which was presented at a convention held in Washington in the latter part of 1902, at which were present delegates from a number of the State societies. At this convention the Federation of Societies of Public Accountants in the United States of America was organized. At that meeting Mr. George Wilkinson was elected Secretary and Mr. Montgomery Treasurer.

From the organization of the Federation up to the time it was merged

with the American Association of Public Accountants, Mr. Wilkinson labored unceasingly for its success. The value of the pioneer work done by him during this development period of the profession, cannot be overestimated. The enthusiastic, untiring and self-sacrificing efforts of this member are worthy of the highest praise.

The first annual convention after the organization of the Federation was held in Washington in October, 1903. It is interesting to read the now ancient history told in the bulletins of the Federation. The Secretary reports of his work in encouraging the formation of State associations:

"On September 17 I called a meeting of the public accountants practicing in St. Louis," and he proceeds to tell who responded. "On September 20 I called a meeting in New Orleans." "On September 26 I succeeded in securing a meeting in Louisville, Ky.," and later "investigated the standing of the accountants in Tennessee." You can easily understand that the Secretary was a live wire. The report goes on to say: "The Ohio Society (16 members) and the California Society (16 members) have been organized since the last Convention and have been elected members of the Federation." It is stated that New Jersey "showed an inclination to join," but apparently did not like the idea of having to double its dues, which were \$5 per member.

There appears a reference to the visit of a deputation to Washington in July to memorialize the Secretary of Commerce. The writer was a member of this delegation and well remembers the occasion—that is—all except its purpose! It was July and red hot, but the inexorable Secretary Wilkinson insisted on frock coats and top hats. Ye gods, how we must have looked, five or six black crows standing in a solemn row in front of the honorable cabinet member, while our Secretary spoke his little piece. After

that was over there was relaxation and refreshment—and the inevitable group picture. The memorial probably rests with the ten million other petitions that have met a like fate.

In this bulletin the names of Mr. Lybrand and Mr. Montgomery appear on the Executive and Legislative Committees, respectively. In October, 1904, Mr. Montgomery was elected Secretary of the Federation and served in that capacity until it was merged with the American Association.

Congress of Accountants: The World's Fair was held in St. Louis in September, 1904. Who first had the audacity to propose that the Accountants hold a World's Congress, is not remembered, but very likely it was the bold and indefatigable Secretary. To him undoubtedly should go much of the credit for its great success, but in a speech at the very close of the Congress, he said:

"I wish to express to you the great obligation that I feel to my friend, Mr. Montgomery, for the help he has given the organization. There has never been a moment that he was not ready to help. During these last two years he has been constantly ready to aid the Secretary of the Federation, and no service was too much to ask of him, no personal inconvenience too great."

The convention was a wonderful affair, and in reviewing its proceedings now it astonishes one that our accounting profession, at that stage of its development, could gather together such a group of men.

It was the first Congress of Accountants ever held in the United States of America. Members were present from sixteen States. Among the visitors were Francis W. Pixley, past president of the Institute of Chartered Accountants of England and Wales; James Martin, Secretary of

the Society of Accountants and Auditors in England; E. Van Dien, Holland; John Hyde, president of the Dominion Association of Chartered Accountants, and officers of other Canadian associations.

An important paper was read by Mr. Pixley on "The Duties of Professional Accountants in Connection with Invested Capital Both Prior to and Subsequent to Investment." This address may be found in the Official Record of The Congress of Accountants, 1904, in our library, and the members of the staff should read it. As the members of our staff know, the firm of Jackson, Pixley & Company has represented us in Great Britain for many years.

At that Congress Mr. Montgomery presented a paper on the subject "The Importance of Uniform Practice in Determining the Profits of Public Service Corporation Where Municipalities Have the Power to Regulate Rates." It will also be found in the Official Record.

In preparing the program the Committee decided that an opportunity should be given to members of the staff in accountants' offices throughout the country to prepare papers to be submitted to a Literary Committee, a prize being offered for the best paper. The papers were submitted to the Secretary without the names of the authors being attached, and by him were sent to the members of the Literary Committee, each one of whom read every paper. The prize was unanimously awarded to Mr. Staub, who was then on the staff of our Philadelphia office. The winner of the prize was invited to appear before the Congress and read his paper, which Mr. Staub did. The subject was "Mode of Conducting an Audit," and the paper will be found in the Record of the Congress.

Merger of Federation and American Associations: While the Federation had a rapid growth and within

two years reached a commanding position as a national organization, the American Association, the old national society, still carried on, and the New York State Society, the largest State organization, was outside the fence. It was recognized that all these conflicting interests ought to be reconciled so that there should be only one national society which would receive the support of all the State societies.

After many attempts it was finally agreed that each of the three societies should appoint a committee of three members to form a joint committee of nine to work out a merger plan. The committee appointed by the Federation was composed of A. Lowes Dickinson, George Wilkinson and Robert H. Montgomery. The efforts of the joint committee were crowned with success, and an amalgamation of the Federation and the American Association was effected.

The celebration of that event took place at the annual meeting and banquet in New York in October, 1905. The first Year Book of the American Association (now the American Institute) is that of 1905, and the real national work of the organization virtually began at that time.

Mr. Dickinson, of Price, Waterhouse & Company, now Sir Arthur Lowes Dickinson, was elected to the position of secretary of the Association. In an admirable response to a toast at the banquet on that occasion, Sir Arthur gave expression to sentiments which he said should be the guiding principles of every accountant, old and young, "the ideals we should all have before us may be best expressed by the words integrity and thoroughness. Let our motto be adherence to the right under all conditions and at all times" Sir Arthur was the last President of the Federation of Societies, and this sketch of its activities cannot be brought to a close with-

out testifying to the splendid work he did, during his residence in this country, in furthering the interests of the profession.

At this annual meeting it was noted that "The Accountancy Publishing Company" had been incorporated for the purpose of publishing "The Journal of Accountancy." The first number was issued in November, 1905. The contributors to that first number comprised a notable group. They are presented here in the order in which their articles appeared:

"Education and Training of a Certified Public Accountant." By J. E. Sterrett.

"Duties and Responsibilities of the Public Accountant with Regard to New Issues of Stocks." By Arthur Lowes Dickinson.

"Professional Standards." By Robert H. Montgomery.

"The Scope of the Profession of Accountancy." By F. A. Cleveland.

(To be continued)

TRADE ACCEPTANCES

Although the trade acceptance has had long and successful use in England, where it forms one of the chief media of exchange, its use in this country is comparatively recent. The Federal Reserve banks initiated the movement in this country, and due to their favoring attitude and the educational campaign of the American Acceptance Council, this form of negotiable instrument is attaining a position of real importance in the financial and commercial world.

A trade acceptance is a promise to pay at a specified future date, drawn by the seller and signed or accepted by the buyer, for an amount covering one or more invoices of goods which must be of recent date. The seller can then discount the acceptance at his bank so that his capital is no longer tied up in Accounts Receiv-

able. The bank can, in turn, rediscount the acceptance at a Federal Reserve bank, obtaining a preferential discount rate because of the two-name self-liquidating character of the paper.

By giving an acceptance the buyer does not waive any legal claim against the seller in the event that the goods are not up to specification. From the seller's viewpoint the trade acceptance has precedence over an open book account in that the acceptor agrees to all terms of purchase without qualifying conditions, while in the latter case the individual charge entry must be proven and may leave open points for contention.

The advent of scientific accounting shows the open account system to be old-fashioned and illogical. A signed negotiable instrument is a far better evidence of a debt than a ledger entry, and gives a more definite check on the accounts receivable or payable. Adoption of the trade acceptance movement makes a business more like a bank, where every debt is evidenced by a signed paper and it is known when and where every dollar is payable or receivable.

The acceptance also forms an effective weapon to combat the abuse of the open account which is so common today. No change of terms is necessary, but this method enforces a strict adherence to the terms already in use. It is true that all firms try to enforce their terms of sales, but investigation shows that customers practically settle when they please. In one trade, where the terms were 2% discount for cash in 10 days, net 60 days, about 50% of the customers discounted their bills within 15 days, 30% paid the net price within a month after maturity, 10% paid inside of 4 months, and the remaining 10% paid within about six months or not at all.

This laxity in observing the terms of sale has made necessary the high cash discount rate and, of course, correspondingly increases the invoice

price. The trade acceptance idea has no intention of eliminating cash discounts, but by more effectually restricting credit terms the amount of discount might be reduced and consequently the invoice price.

By discounting his acceptances, the seller is enabled to utilize his capital for increasing production instead of allowing it to stagnate in the form of book accounts—an inefficient and uneconomical business procedure.

A reduction of loss from bad debts is bound to follow where an acceptance for every bill of goods (except where the cash discount is taken) is insisted upon or even where it is used in a majority of sales. Few people will sign a definite promise to pay in 60 days unless they actually feel they will pay. At present they pay little attention to credit terms, since their aim is to secure the extension of credit with payment somewhat at their own convenience. Furthermore, an acceptor cannot repudiate his contract by arbitrarily returning unsold goods, nor can he withhold payment pending the settlement of a minor claim.

This feature should have a corrective effect on business in general. A merchant is less apt to over-buy when it involves a written obligation and strict compliance of terms. This will tighten up his business methods; he becomes more particular about his bookkeeping, and he soon gets the habit of modern practices which should bring him into that favored class who are able to discount their bills. His credit standing and financial reputation reflected by prompt payment of these acceptances are bound to increase.

There is also the possibility that the practice of assigning accounts, an expensive procedure, will decrease. Reputable firms have sometimes found themselves obliged to do this. The rate of borrowing in this way varies often from 8 to 12 per cent., only a percentage of the amount assigned is

loaned, and the borrower guarantees the payment of the accounts.

The banker should be very willing to discount trade acceptances offered by his customers, as there are a number of points which make it a very desirable form of commercial paper.

When a depositor discounts a trade acceptance the banker receives two-name paper, which is undeniably safer than the usual single-name note.

The acceptance is *prima facie* evidence of what the credit was extended for, whereas in the case of a single-name note for a round sum, the inference is that the money will be used in the general conduct of the business. By the very fact of the existence of a trade acceptance the banker knows that certain goods have been shipped and that through the sale of these particular goods the acceptor expects to secure funds to meet it at maturity. The Federal Reserve Board has discouraged the use of this form where it represents material purchased for use in a fixed investment, since the strict intention is to cover only commercial transactions—goods purchased for resale.

This self-liquidating feature is rather important, for with the usual loans for use in the general conduct of the business, the banker has no assurance that it will be paid at a definite date and often takes it for granted that the customer will wish a renewal or extension. The trade acceptance segregates a particular transaction from the general conduct of the business, and there is good reason to believe that it will be liquidated on a definite date.

With the increased use of trade acceptances the banker can keep in closer touch with local credit conditions. As they are forwarded through local banks for collection he can see how they are paid, whereas with the present open account system he has only a general idea of the promptness of his depositor's customers in meeting bills.

This would seem to be one of the best available methods for analysis of credit and financial standing.

The banker likewise secures definite information about his depositor's customers and is soon able to determine the good and bad, thus adding his own judgment to the depositor's credit department.

Perhaps the most important feature to a banker is the rediscountable feature. The Federal Reserve Banks definitely favor trade acceptances, and it is intended that they should obtain a preferential discount rate. The usual single-name paper is less liquid, for its proceeds may have been put into fixed assets, while the acceptance (as previously explained) is self-liquidating by nature. Federal Reserve currency is based on gold and commercial paper, and it is the duty of every banker to maintain the highest character of commercial paper possible.

There is every indication that discount companies of the type so frequently encountered abroad will spring up in this country. This will mean an additional rediscount market for acceptances probably on more favorable terms than with the Federal Reserve Banks. This two-name paper should certainly be more acceptable to these companies than the single-name notes of the banker's depositors.

Experience has already shown that some few business men have believed that the two-name feature of acceptances would eliminate most defects of credit and that investigation of ratings by credit departments would become unnecessary. This is, of course, a dangerous idea, for while men are more careful to meet their signed obligations, the mere reduction of a debt to written form will not change a poor credit risk to a good risk.

In this connection many houses have initiated the movement by securing acceptances from over-due, slow-pay

customers. It is unquestionably wise to reduce these old outstanding accounts to written form, but it is absurd to expect a preferential discount rate by claiming that it has the additional strength of the two-name self-liquidating character of the paper. These men lose sight of the specific function of the trade acceptance. It is a negotiable acknowledgment of an actual sale of goods by a seller to a buyer and constitutes a promise to pay covering a *live* transaction drawn for the time involved in the terms of the sale contract.

A form for trade acceptances has already been designed and approved. This bears the following notations: "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer," and, "The drawee may accept this bill payable at any bank, banker or trust company in the United States which he may designate."

As is natural with the introduction of any new method, there are many opponents. First of all there is the customer who will not sign an acceptance because he wants to take his own time in paying his bills, for the 30 or 60 day terms are a movable feast to him. Certain big corporations will not deviate from their own dictatorial methods of payment. The first case shows the man to be an undesirable sort of customer, and in the second case it is a question whether the seller is sufficiently strong to protest.

There is the timid man who thinks his credit will be injured by signing, that his solvency and honesty is being questioned. A good answer to this would be, "You have made a purchase from us and you intend to pay for it as you always have done in the past. The only change we request is that you give us a bit of paper fixing the future date when you will pay. Your banker is sufficiently familiar with trade acceptances to rejoice to see modern methods of credit, and since

the obligation is for the purchase of goods, the transaction establishes rather than reflects on your credit standing. It is not a note of the kind frequently given for overdue accounts, but it is the highest grade of commercial paper which signifies prompt payment methods."

One very definite and reasonable protest has been brought forward. In a line of business where the terms of sale are less than thirty days any practice making settlement more involved and which may tend to lengthen the time of payment is not advisable. It does not seem practicable, therefore, to attempt to introduce the trade acceptance unless the terms of credit are 30 days or more.

There has been a steady and healthy increase as shown by a report of the Federal Reserve Banks of their transactions in trade acceptances. This shows that they rediscounted in 1916 over 5 million dollars, in 1917 over 37 million, and in 1918 over 187 million dollars worth of such bills.

Several business houses have reported extraordinary successes in the use of trade acceptances. A textile commission house received \$3,650,000 in acceptances in two years and a half and has a 100% record of payment. Another firm reported 3/100 of 1% loss from over \$2,000,000 worth received in one year. Many other concerns testify to the valuable results obtained by their use.

A report of the Acceptance Committee of the American Bankers' Association shows that where trade acceptances have been used credit periods have been shortened; disputes reduced; there has been a definite check on all transactions; business has been generally stabilized and at the same time sound commercial paper has been produced on which the Federal Reserve Banks can issue currency.

SYDNEY J. ROGERS
Boston Office

HOW TO WRITE A REPORT

A talk to the men of the New York staff on "How to Write a Report" was given by Mr. Staub on Friday evening, May 14, 1920, at the New York office. The following is a summary of his remarks:

Too much emphasis cannot be placed on the importance of a well written, informing report to a client upon completion of an engagement, or even before its completion if the circumstances are such as to call for a preliminary report.

The report is the means by which the accountant maintains his line of communications with the client. In many cases the client himself may see but little of the members of the staff directly engaged on the work, and his impression of the value of the work done will be based in a large measure on the report submitted. The remarks which follow are suggestions inspired by observation of the fate of many report drafts, the impressions gained of their virtues or faults, and the conviction that there are certain aims to be held in view and pitfalls to be avoided in writing a report.

Don't be Stereotyped: Some men seem to labor under the impression that it is necessary to prepare the text of reports in the same form which they have found used by other men when first joining the staff. This stereotyped form most often consists of comments *ad seriatum* on the items of the balance sheet and before beginning to read the report one already knows it will read something like this:

We have checked the bank balances and counted the cash on hand; we have verified the trial balance of accounts receivable ledger, etc., etc.,

going on through all the minutiae of insurance and other prepaid expenses (often of comparatively small amount), on through the liabilities "one by one," and then to the capital stock.

At this point, if the matter is referred to at all, the operations of the year, which usually are, or would be, of greater interest to the client than most other features of the report—particularly if it is a periodical audit—are dismissed with a word or two of trite comment or of reference to the appended earnings and expense statement.

This is a quick way to write a report, but it doesn't make an interesting or valuable one. For instance, we have clients for whom we have been making annual audits for the past ten, fifteen or twenty years, and you can imagine with what eagerness they await, and with what mental stimulation they read, each year the report that brings them the astounding news that once again we have verified the bank balances and counted the petty cash and actually found them to be correct! If a client had a suspicion that such an obvious thing as verifying the cash balance were not being done he would probably soon change auditors. Some things are so obviously a part of the auditor's duty that in the absence of a definite statement to the contrary it is to be assumed that they have been done.

To sum up under this head, let us get away from this stereotyped form of balance sheet comment and use it only when it is really called for. Cases in which this form of comment may appropriately be used will be referred to later.

Discuss more important matters early in report: Ordinarily, try to put in the early part of your report really important matters, things that are vital and interesting to the client and

(Continued on page 12)

The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. and Montgomery, for free distribution to members and employees of the firm.

The purpose of this journal is to convey to every member of the staff and office communications of the plans and accomplishments of the firm, to provide a medium for the exchange of suggestions and ideas for improvement; to encourage and maintain a proper spirit of co-operation and interest and to help in the solution of common problems.

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It is contemplated that the L. R. B. & M. JOURNAL shall appear eight times in each year, from January to May and from October to December. The present issue will, therefore, be the last until after the Summer.

Plans are formulating for some very interesting and, it is hoped, also helpful material for future issues. With the vacation period before us the personal notes of the October issue, which will appear as "Vacation Echoes" from the different offices, should be plentiful and of especial interest. If in the course of your vacation you visit some place of historic or scenic interest, or if you have any unusual experiences, please mention the matter to the representative of the Journal at your office.

It will be the aim to develop the Questions and Answers department so as to make it of increasing helpfulness. The June, 1920, issue of the *Journal of Accountancy* contained all the questions set for the May examination of the American Institute of Accountants. Answers to any of the questions from any member of our staff are invited with the thought that the best answer to any question will be published in a succeeding number of the L. R. B. & M. JOURNAL. The answers will be carefully reviewed by one or more members of the firm and it is hoped that answers thus reviewed will be especially helpful to those who are preparing for future examinations and, as is usual in such preparation, attempting to profit from the questions set at previous examinations of the Institute.

Questions from any member of the staff on either accounting or tax matters are always welcomed. In no other way can our Journal be made more valuable to each member of the organization than by liberal use of the Questions and Answers department. Especially would we emphasize that no one need fear that any question will be considered a reflection on his ability.

Several interesting articles, such as one on "The Scottish Chartered Accountant," and another on "Accounting Work with the Y. M. C. A. in Paris," are already in hand for publication in forthcoming numbers of the Journal and others of an interesting nature are in sight. It is hoped, for instance, to present a series of articles dealing with some of our clients whose businesses would be eligible for membership in a century club. While comparatively few businesses in America have attained to the age of one hundred years, we have nevertheless a number of clients whose history as business enterprises or as educational institutions goes back for that length of time and longer.

HOW TO WRITE A REPORT.

(From page 10)

to which his attention should be promptly called.

When important matters are preceded by comments on numerous minor matters, particularly if they are dealt with in a technical way, the client may be exhausted by the time he gets to the important items and may pass them by, saying to himself, "I guess the rest of it is all right." Thus some special comment, perhaps in connection with operations of the year, may not get attention because it was not stated in the early part of the report.

Don't elaborate on trifles: If a slight difference between controlling accounts and subsidiary ledgers should occur or an error of 2 cents in petty cash, it may be all right to mention them, but the average client does not want to be burdened with such non-essential matters. If errors are indicative of carelessness even though otherwise not vital, it is advisable to report them, commenting thereon in as few words as possible. This treatment will please the average client much more than if such minor matters are unduly dwelt upon.

Do not "pad" the report merely to have it run into a considerable number of pages. A brief report containing worth-while comments is preferable to copious comments which are really "much ado about nothing."

Cover everything vital: It is very annoying to a client to have a report come to him and then later receive a supplemental report on something that had been omitted from the report proper, especially if the client should be a banking or investment house floating issues of securities and had in the meantime issued circulars based on the initial report.

There are of course some engagements where supplemental reports are entirely in order. For example, in brokerage or bank examinations sup-

plemental reports are frequently necessary for the purpose of bringing to the client's attention accounts or loans for which confirmations have not been received.

Endeavor to make report interesting: Try to learn of things during the examination which will interest the client. The form of presentation frequently decides whether or not the client's interest will be aroused. Increasing the use of charts or "grafts" to facilitate the comprehension of developments or tendencies in sales, costs, margins of profit, etc., is well worth considering.

Use clear, concise English: The language used in writing a report should be clear, concise and avoid ambiguity. Especially, avoid long sentences. Where an effort is made to cut down the sentences, making them short and crisp, there is more likelihood of making a clear statement of facts then when a long sentence starts at the top of a page and extends over to the next. Do not begin too many sentences with participles or indirect forms of expression.

Cutting up the text into short paragraphs helps to make a report clear. Theoretically, a new paragraph should be started only when a new train of thought begins, but strict adherence to this academic rule often results in discouragingly long paragraphs. Subdivision of an extended comment into a number of paragraphs facilitates its digestion.

A liberal use of paragraph captions also tends to facilitate the client's reading, study and comprehension of a report.

Study your client before you write your report. Different clients like different kinds of reports. Some clients will not read a twenty-five page report for love nor money, while others delight in going into the minutest details of the business. Try to form some idea of the kind of report that

will appeal to the client or his responsible representatives.

Write report promptly: Unless a report is promptly forwarded to the client it is not liable to arouse his interest when it arrives, but rather to arouse a feeling of peevishness because of delayed presentation. It is important that the accountant in charge of the work in the field get his draft report into the office as soon as the work is finished, because, at best, the review, typing and comparing of the report in the office after the draft arrives there must take some time. It makes an excellent impression on the client if he receives the report soon after the completion of the work.

Write report in client's office: Two strong reasons are advanced for writing the report draft in the client's office whenever it is feasible to do so, and it usually is, viz.,

1. Accessibility of records.
2. Client appreciates time spent on work.

As to accessibility of the records, if the draft of the report is written at our office, questions or points coming up on which more information seems desirable necessitate much telephoning (with the possibility of the information received in this way not always being accurate) or perhaps causing an additional trip to the client's office. Particularly in the case of out-of-town engagements is it annoying when writing the report after returning to the office to find that data is lacking, the need for which was not previously seen.

If the report is written in the client's office, the records are available for securing readily such supplemental information as the drafting of the report discloses to be necessary. Also, explanations which it may be desirable to secure from the client's staff are more likely to be satisfactory if received on the ground than when obtained over the telephone or by mail.

The difficulty of securing satisfactory explanations at long range tends to result in the slighting in the report of perhaps important matters.

When a report takes considerable time to prepare, the client does not appreciate the time required to assemble papers and write and rewrite the report. He simply knows that the accountant is gone and gives no credit for time spent elsewhere.

Accept proper responsibility: Some reports would lead one to believe that they were written for the protection of the accountant and to serve as an alibi in case it later developed that all was not as it should be in the client's affairs.

When a client, whether for reasons best known to himself or for reasons expressed to us, does not want the accountant to follow what appeals to the latter as the best procedure in making the examination, the accountant should, of course, make mention of the restriction in the report. Also, if by instructions of the client, an examination is limited in scope, the report should not fail to disclose this fact. When, however, a client does not impose any restrictions or limitations, it is not fair to him to make the report an erudite collection of "ifs" and "buts."

Supplementing the foregoing, it may be stated that certain engagements are of a rather special nature which warrants ordinarily the report describing at least briefly the steps taken to verify the various assets and liabilities. Bank and brokerage audits come into this class because there are usually at least some items which even in a fairly comprehensive examination it may not be practicable to verify as conclusively as the auditor would wish to be the case. For example, the deposit accounts in a bank examination are but seldom verified as exhaustively as would be theoretically desirable, and it is important not only to have this understood

with the client but also to make it a matter of record in the report.

It is so obvious that it need hardly be stated that a good report can be written only if it has been preceded by a good examination, that is, one which is thorough, intelligently conducted and directed toward ends which will be of the greatest service to the client. As a conclusion of this discussion, it may be in order to repeat the proverb, "first be sure you're right and then go ahead."

NATIONAL TAX CONFERENCE AT CHICAGO

On April 16, 1920, at Hotel Blackstone, Chicago, a "National Tax Conference" was held, upon call of the National Industrial Conference Board. The Tax Committee of the National Industrial Conference Board, consisting of five members, with Fayette R. Plumb of Philadelphia as chairman, has been studying the problem of revision of the Federal Income and Excess Profits Tax laws, and this Committee felt that since other organizations were dealing with the same problem, the effective way to get consideration by Congress for proposed new legislation was, first, to work out a complete program for changes in the law, and second, to get behind such a program the support of various national organizations of industry.

In consequence the National Industrial Conference Board, which is itself an association of various industries in the eastern part of the country, invited a large number of the industrial organizations in the many branches of industry to send delegates to the conference in Chicago. A wide variety of industries was represented at the conference, which consisted of about one hundred and fifty men. The delegates were in part counsel for the organizations represented, and in part executives and owners in different lines of industry.

Sessions were held morning, afternoon and evening. At the morning sessions Mr. James T. Emery, counsel for the National Association of Manufacturers; Judge Zoller, tax counsel for the General Electric Company, and Professor Carl C. Plehn of California, now Exchange Professor at Columbia, spoke on the Excess Profits Tax Law.

Judge Zoller spoke in favor of the retention of the Excess Profits Tax Law upon the ground that the burden could not be any more readily borne by business through some change. He was very emphatic in denunciation of the high brackets of the surtax, which he said were responsible for the fact that it was so difficult for industry to get new capital, since taxpayers with large incomes would not invest in taxable securities.

Mr. Emery and Professor Plehn spoke in opposition to the law. Both emphasized the inequitable results of the law, and the fact that it does not allow sufficiently for the unequal risks of different kinds of business, and consequently the need of permitting varying amounts of income free from tax to different industries.

Professor Plehn is very emphatically opposed to the present method of self-assessment of income taxes. He thinks that the old practice, common for a very long period among Anglo-Saxon peoples, of having taxes finally assessed before they are payable is the only sound permanent basis for levying taxes. He would have local assessors to fix income taxes, and make an assessment roll before taxes are payable.

The specific objections to the Excess Profits Tax brought out by Mr. Emery and Professor Plehn were reiterated all through the afternoon and evening sessions by the many speakers from the various organizations. No one other than Judge Zoller had a good word for the law, and the opinion was expressed that even he spoke in favor of the law because he had been asked

to defend it, and not because he seriously felt that it should continue.

The immediate result of the conference was the appointment by the conference of eleven men representing various industries to serve with the five members of the tax committee of the National Industrial Conference Board, as a committee to formulate a legislative program for revision of the Federal Tax Law, and to present such a program to the conference reconvened at a later date, perhaps in the fall. The proceedings of the conference will be reported by the National Industrial Conference Board.

The following are specific impressions as to the feeling of the members of the conference regarding the present tax situation:

1. There is generally throughout industry a feeling of great irritation with the Excess Profits Tax Law, both in theory and in the practical administration of it; such great irritation that there will be a growing pressure for repeal of the law. This feeling has apparently got to the point where it is not so much a matter of the particular hardship on industry, but a sort of revolt against any such process of taxation after the immediate demands for prosecution of the war have ceased.

2. There was widely expressed feeling that industry will not be able to stand the drain upon its cash resources made by the present taxes. Many speakers expressed fear that should there be any considerable slump in the values of stocks on hand, large numbers of concerns would find it impossible to get cash to pay their taxes, and would be seriously embarrassed, if not bankrupted.

3. Many speakers who have recently represented their organizations in Washington expressed unhesitatingly the opinion that the Treasury Department is utterly unable to keep up with the administration of the law.

4. The consensus of opinion was

that no radical modification of the law can be expected until after the elections, in order that responsibility for any new law may be cast upon the party succeeding to power. There was some opinion, however, that minor amendments of the law may be favorably acted upon by the present session of Congress. A part of the duty delegated to the committee appointed by the conference was to make recommendations to industries urging support of such minor amendments of the law as are not controversial, in the main such amendments in procedure as have recently been recommended by the Secretary of the Treasury.

5. The only substitute for the Excess Profits Tax that was much advocated was a "Sales Tax." The recommendations of Secretary Houston for a tax on undistributed income of corporations were discussed, but apparently had not made very much impression on the members of the conference. Many speakers, however, had given some considerable attention to the possibilities of the sales tax.

Mr. E. A. Lord of New York, of the Cotton Industry, spoke several times in favor of a plan for substitution of the sales tax, which he has worked out in some detail, and for which he has got support from a large number of individuals, reached through publication of the plan in trade papers throughout the country. It was apparent that many of the delegates present were very much in a mood to accept any new plan which might offer a possibility of getting rid of the Excess Profits Tax. Mr. Lord advocates substitution of a sales tax in place of all direct taxation on business. He would be satisfied either with a tax on sales, from sales of raw material to sales of the finished product to the consumer, or a tax at a higher rate only on sales to the consumer. He had estimates from the statistician of the Bureau of Internal Revenue and from other sources on which he based the

statement that a tax of not over 3% on sales to the consumer would net revenue sufficient to take the place of the Excess Profits Taxes and income taxes on business.

He and others who mentioned the matter in the conference were perfectly frank to say that they all intended to pass on the tax to the consumer, and that in their opinion the whole problem would be simplified if the consumer paid one specific tax, rather than that business should be burdened with the complications of the present direct taxation system.

Mr. Lord and other speakers expressed the confident opinion that both Representative Fordney, of the Ways and Means Committee of the House, and Senator Smoot, of the Finance Committee of the Senate, were favorable to a sales tax, not primarily, however, in substitution for all income taxes on business, but as an additional source of revenue. Mr. Lord and others recognized the possibility that a sales tax might simply increase the total tax burden, but apparently did not feel this to be an insuperable objection to an attempt to procure the enactment of a sales tax in substitution for income and excess profits taxes.

A number of speakers dealt with the necessity for a reduction of the national expenditures as a fundamental basis for the possibility of decreasing taxes. There were several proposals for refunding of indebtedness of the government, as for instance, the Fifth Liberty Loan, in order to make a smaller present demand for revenue than would be required for repayment of these and other obligations, which might be refunded. A plan for a budget system was outlined involving the appointment of a new cabinet officer whose function should be to make recommendations for appropriations based on examination of the needs of all branches of the government.

In conclusion it is fair to say that the impression given by the speakers at the conference (very few of whom were other than conservative representatives of industry) was that they were alarmed at the possibility of a very considerable business reversal in the near future, due in part to the very heavy drain upon the liquid resources of business made by the existing heavy taxes, and likely to be precipitated whenever a sharp decline in the present inflated values of products comes.

E. E. WAKEFIELD, JR.
Boston Office

THE STOCK DIVIDEND DECISION

The stock dividend decision of the United States Supreme Court in March last is one of the most important that has yet been handed down on the income tax laws. The decision was an important one, both because of the question which it directly settled, viz., the taxability of stock dividends as income, and because of the general position taken—that Congress cannot tax as income, by merely calling it so, something that in the opinion of the court is not income within the meaning of the constitutional amendment.

The decision has given rise to a number of questions which were not dealt with in the particular case at bar and which, therefore, did not receive consideration by the court at this time. Discussion of them has been going on, however, and it is not unlikely that sooner or later concrete cases involving these questions will come up for final decision. The following are several of such questions;

1. The Secretary of the Treasury, himself, in a message to the Ways and Means Committee, has raised the question as to whether the stock dividend decision has not in effect abrogated

those sections of the present income tax law which tax personal service corporations on the basis of partnerships rather than as corporations.

The final decision on this question will naturally be of considerable importance to those corporations which have paid taxes for 1918 and are now paying taxes for 1919 on the basis of the return made in accordance with the personal service corporation sections of the present law.

2. An ingenious theory which has been suggested is that the stock dividend decision makes it possible for corporations which have a considerable surplus accumulated prior to March 1, 1913, to pay cash dividends which will be exempt from surtax in the hands of their stockholders. The question has been raised whether such a corporation could not issue a stock dividend up to the amount of all its earnings accumulated since March 1, 1913, and hitherto undistributed, and thereafter consider its cash dividends as paid from surplus accumulated prior to March 1, 1913.

Presumably, this suggestion would carry with it the declaring in each year of an additional stock dividend to cover the amount of the profits of that year; otherwise, cash dividends after the initial procedure above mentioned would be considered as being out of the current year's earnings.

This procedure to be effective is based on Section 201 (b), which reads in part:

"* * * Any distribution made in the year 1918 or any year thereafter shall be deemed to have been made from earnings or profits accumulated since February 28, 1913 * * * but any earnings or profits accumulated prior to March 1, 1913, may be distributed in stock dividends or otherwise, exempt from the tax, after the earnings and profits accumulated since February 28, 1913, have been distributed."

And on Section 201 (c), which reads in part:

"A dividend paid in stock of the corporation shall be considered income to the amount of the earnings or profits distributed."

In the writer's opinion, however, the procedure suggested is more ingenious than dependable. Since the Supreme Court has decided that the stock dividend is not an actual distribution of profits and therefore not income to the stockholder, Section 201 (c), quoted above, is no longer in effect. It would follow that a stock dividend would not be considered to have effected a distribution of earnings accumulated since March 1, 1913 (if it is to be considered a distribution at all it would be only natural to consider that the earliest undistributed surplus represented the earnings which had been reinvested in the property and which are now being permanently capitalized by the issuance of a stock dividend), and hence cash dividends paid after the stock dividend would still be held to be from surplus accumulated after the date mentioned and therefore taxable to the recipients until all the surplus accumulated since March 1, 1913, had been distributed.

The question of following the procedure discussed above may be raised by clients, and wherever this is the case we should advise them strongly that we do not believe that the theory suggested will hold.

WALTER A. STAUB

AWARDS OF PRIZES

Some time ago Colonel Montgomery offered several prizes for the best suggestions or for constructive criticisms of his *Auditing Theory and Practice* in connection with a forthcoming third edition of his book. The following men submitted suggestions or

criticisms and received prizes therefor:

Mr. Burton	Chicago
Mr. Bergman	New York
Mr. Norris	New York
Mr. Grove	Boston
Mr. FitzGerald	New York
Mr. Howard	New York
Mr. Hawes	Chicago
Mr. Bischoff	New York
Mr. Hiller	Pittsburgh
Mr. Hopkins	Chicago
Mr. J. H. Smith.....	New York

TRANSFER OF PERSONAL PROPERTY BETWEEN SELLER AND PURCHASER

While an accountant is not expected to have expert knowledge of the law, yet familiarity with some branches of it is desirable. For example, in the preparation of inventories, the inclusion or exclusion of items or merchandise may depend on where the title thereto rests, and this in turn is governed by the law of sales.

Most States have adopted the Uniform Sales Act, and while its interpretation by Courts of different States has not always been identical, nevertheless as a whole the effect has been toward uniformity. This memorandum intends but the briefest outline of some phases of this subject.

There is an important distinction between a *sale* and a *contract to sell*. In a sale, the seller *transfers* the title to the buyer. In a contract to sell, the seller merely *agrees* to transfer the title to the goods to the buyer. The sale is a consummated transaction; the contract to sell executory, looking to future performance.

A *sale* can only be made of existing goods. But a *contract to sell* may be made either of existing goods or future goods.

It is not, however, a requisite of a *sale* that the goods be set apart or

separated. They may be part of a larger quantity of the same kind—as where a hundred thousand bushels of grain are stored in an elevator of which a present sale is made of ten thousand bushels. The purchaser becomes the “owner in common” of the proportion he has purchased.

Since in case of an actual sale title passes immediately, there is usually little room for argument as to the ownership of the property. The difficulty arises with respect to contracts to sell—where title is to pass at a future time—and the question is when does title pass?

In construing a contract of any kind, the question is what did the parties intend? Now intent is a matter of the mind, and since what is in a man's mind is not readily proved, the Sales Act lays down certain rules for determining that intent with respect to when title shall pass. Of course, if the contract expressly specifies the time, or if the usage of trade fixes it, then that governs. But in the absence of a contrary intent the following applies:

1. Where there is an unconditional contract, and the goods are in a deliverable state, title passes when the contract is made, irrespective of when payment or delivery is to be made.

2. Where the seller has agreed to do something to the goods to put them in deliverable state, title does not pass till that thing has been done.

3. Where goods are delivered to the buyer with option of paying for or returning them, then title passes on delivery to the buyer, but he may divest himself of that title by returning or tendering them to the seller within the time specified or within a reasonable time where none is specified.

4. Where the goods are delivered on approval or on trial, then title passes when the buyer approves, or if he does not approve but fails to

reject within the time limited or a reasonable time if none is fixed, then title passes at the end of such time.

5. Where future goods are sold by description, and goods of that description are subsequently appropriated to the contract by the parties, the title passes to the buyer at such subsequent time.

6. Where the seller delivers the goods to a carrier or other bailee for delivery to the buyer, title passes when so delivered to the carrier or bailee, unless the seller is to pay the freight to or deliver at a certain place or to deliver to the buyer, in which latter events title does not pass till the goods reach that place or are delivered to the buyer.

It should be remembered that the mere fact that title has passed to the buyer does not necessarily entitle him to possession. The seller may have a lien on the goods and retain possession for payment of the purchase price, or until performance by the buyer of other conditions of the contract. The title having passed, however, the goods will be at the risk of the buyer, for the loss follows the title.

Editor's Note—For the foregoing memorandum, which was prepared at our request, we are indebted to the courtesy of H. Theodore Sorg, Esq., of the law firm of Burnett, Sorg, Murren & Duncan, of Newark, N. J. This firm is counsel for some of our New Jersey clients.

CHICAGO OFFICE

Personal Notes: The Chicago office mourns the loss of its "oldest surviving inhabitant," Mr. Wm. J. Puncheon, who has left the service of the firm after an association covering nearly ten years. Mr. Puncheon was the first accountant employed by the firm in its Chicago office after its es-

tablishment in 1909. Our good wishes follow him into whatever venture he embarks upon.

Interesting Engagements: One of the most unique engagements with which the Chicago office has been recently connected is being conducted for a large manufacturer of an accounting labor saving machine. The determination of the amount saved to society as the result of the use of the machine is the ultimate purpose of the examination.

Illinois Society Meeting: At the meeting of the Society of Certified Public Accountants held on April 13th, the most important question under discussion related to the desirability of re-incorporating the Society as a chapter of the American Institute of Accountants. Because some of its members are not also members of the Institute, and could not become members without submitting to its examination, final action on the matter was postponed until the secretary should be able to obtain information concerning the proportion of the Society's members who, because of present lack of qualifications, would have to be excluded from membership in the proposed organization.

Another subject which aroused considerable discussion, and which may be of importance in other large cities, had to do with the relative positions in the classified telephone directory of "Accountants," and "Certified Public Accountants," the former, which includes all who are engaged in any type of accounting practice, being favored at the expense of the latter.

Death of Member of the Staff: Mr. F. C. Hopkins, who had been a member of the staff of the Chicago office for nearly two years, died on April 15th, after an illness of several weeks.

BOSTON OFFICE

With the active assistance of Mr. F. C. Thompson, the members of the staff of the Boston Office have formed a class to prepare for C. P. A. examinations. The meetings are to be held Monday evenings, from 6:15 to 8:15, until November, when the Massachusetts examinations will take place.

Mr. Sweet has consented to direct the work of the course, and will be assisted by the members of the staff.

The program of the course, as tentatively arranged, provides for ten lectures on law and auditing, half the time of the lecture to be given each subject, and fifteen lectures on accounting theory and practice; the remaining meetings will be devoted to a review of the course and intensive preparation for the examinations.

The time at each meeting will be divided substantially as follows:

Thirty minutes will be given to each lecture, followed by fifteen minutes' discussion. In the last half hour the class will have a written test on the subject matter just discussed.

The first meeting of the course was held April 26, and was addressed by Mr. Sweet on Massachusetts business law and the audit of accounts receivable. At the next meeting, Mr. Hughes dealt with the audit of inventories, and Mr. Elwell with some of the important differences between Massachusetts corporation law and similar laws of other states.

PITTSBURGH OFFICE

Personal Notes: Mr. V. E. Bennett is preparing for the November examination of the American Institute of Accountants.

New Publications: We have added the following publications to our Library:

Savidge—"Pennsylvania Corporations," 3 vols.

Gardner—"Effective Business Letters."

NEW YORK OFFICE

Griffis, after several months' assignment, (not on system but on operation) to the Methodist Episcopal Hospital, has returned to us hale and hearty and radiating sunshine as usual. Everyone wonders how he managed to hold his weight during the trying months through which he has passed.

We have received official notice of the marriage of John H. Reid. John Reid returns from his wedding trip an enthusiastic convert to the order of benedicts.

It is with extreme sorrow that we record the death of Frank S. Bartlett which occurred on the 15th of April. Although he had been ailing for some time, Bartlett was always cheerful and genial and those who worked with him, even for a few days, felt a personal loss when they received the sad news. He was exceptionally bright and quick, and possessed good judgment and tact, qualities which indicated that he would have made an unusual success of accounting. Our sympathy goes out to his family in their great loss.

McCluskey believes that a vacation is a change of occupation, so he has taken a position as chauffeur and until he returns he will be busily engaged driving his family to the Pacific coast and back. There are times when we will envy you Mac.

Jack Mahony is writing a series of articles on Sawmill Accounting for the American Lumberman, which periodical mentions him editorially, as follows:

"THE AMERICAN LUMBERMAN begins in this issue a series of articles on sawmill accounting which will cover this subject in a very thorough manner. The author, Mr. Mahony,

has been a member of the accounting staff of Lybrand, Ross Bros. & Montgomery, of New York City, with offices and agencies in many other large cities. He has worked with lumber accounts since 1908, and during the war was extensively employed by the Government in accounting investigations in the lumber field in various sections of the country. His public auditing work during the last ten years has given him an opportunity to study nearly all of the accounting systems and methods in use in the industry and he speaks, therefore, not of the abstract theory of accounting, but of its practical application to saw-mill accounts.

COST ACCOUNTING TALK

On the evening of May 26th, Mr. Staub addressed the Philadelphia Chapter of the National Association of Cost Accountants. The meeting was held in the auditorium of the Philadelphia Chamber of Commerce, there being an attendance of about two hundred.

Some of the subjects dealt with in the talk and later discussed by the meeting were predetermined costs; the analysis and utilization of cost data; the segregation of cost of raw material from cost of fabrication in stating manufacturing costs; the apportionment of costs over a variety of products, or over grades of product, from a common material; and the varying treatment required in determining costs in different types of manufacturing operations, as for example the following:

- a. Manufacture of a single product, as in a pig iron furnace.
- b. Manufacture of large units of production involving comparatively few but long operations, such as foundry or machine shop working only on heavy castings.
- c. Manufacture of great variety of small articles with rapid transition

from one process to another, such as sewing machine attachments, valve caps or lamp fixtures.

d. Continuous process operations, such as flour mills.

e. Contracting, as for buildings, excavation work, etc.

The meeting received notice in the following morning's issue of some of the Philadelphia newspapers.

BUSINESS ENGLISH

The study of business English implies a study of business itself. Every business has its own peculiarities. If a message is to impress the reader the idea it contains must be carefully selected. It is not only necessary to express oneself well, but in addition one must present his thoughts with sufficient force to make an impression on the reader.

It has justly been said that business English is "the art of using words so as to make men do things."

An attempt has been made to help the members of the staff realize the importance of expressing themselves well in the preparation of their working papers and in the writing of their reports. Fourteen drills or lessons have been outlined which can be used for an evening session or when it is possible to get from four to eight unassigned men together for two hours.

In spite of the fact that there has been a comparatively small amount of unassigned time, it has been possible to hold fourteen classes during the last three months. Thirty-one men have attended from one to six drills and all have taken a keen interest in the work.

The drills as outlined were as follows:

1. Use of "ascertain" and "determine"; "show" and the synonyms of "show."
2. Use of "shall" and "will."
3. Long and short sentences. Use of singular and plural nouns

(not collective) in sentence composition.

4. Use of collective nouns in sentences; words commonly misused, viz., "so-as," "as-as," "accept-except," "affect-effect," "among-between," "lay-lie," "set-sit," "permit-allow," "either-any," "disagree with"—not "disagree from," etc.
5. Use of relative pronouns in sentences, viz., who, whose, whom, which, what, that, etc.
6. Use of personal pronouns in sentences, viz., I, my, mine, me, we, our, us, you, your, he, she, it, etc.
7. Use of punctuation marks.
8. Paragraphs.
9. Use of comparatives and superlatives.
10. Use of singular and plural verbs.
11. Use of adjectives and adverbs.
12. Use of "can," "may," "might," etc.
13. Use of "the," "everyone," "someone," etc.
14. Use of "therefore," "however," "hence," and of other conjunctions.

L. F. BRUMM.
New York Office

AN ACCOUNTING INNOVATION

Recently, both at the banquet and in an issue of the "Journal," reference was made in a sarcastic vein to the advantages which might be derived from the use of the ouija board in solving accounting problems.

The writer, bearing in mind that such modern improvements as the steamboat and airplane were originally looked upon with utter disdain, and realizing that a device of this character would revolutionize the accounting profession were it to live up to one-half of its advertised merits, has made an exhaustive study of the operations of this mysterious article and

offers to the readers of the "Journal" for consideration the fruits of his investigations.

It seems that the chief cause for skepticism lies in the fact that the operator, who on previous occasions has used the same contrivance for compiling unbusinesslike data (usually in conjunction with one of the fair sex) is unable to bring his mind to bear on serious problems, which mental state is absolutely essential to the proper functioning of the ouija.

Experience has taught the writer that strict application to the work in hand, coupled with a normal amount of patience, will enable the enterprising accountant to unravel, in an unbelievably short space of time, such mysteries as the present value of \$1 on an annuity basis, the rate of depletion on mines, etc.

Then, too, as an income tax computer, its uses are indispensable. One need only be advised that with the aid of this wonderful invention it is possible to tell in advance whether or not the revenue inspector will review the return submitted, and if so, on what date, and whether or not he will consider the depreciation or amortization excessive, to realize its labor-saving possibilities.

True, the ouija board has its disadvantages which, however, after considering its merits, appear negligible. The portfolio in present use would have to be enlarged to allow for the greater dimensions of this time saver, as even its most ardent supporter must admit that a bag in one hand and a ouija board under his arm does not add to the professional appearance of the modern accountant. Then, too, an accountant of our acquaintance who makes it a point to curl his hair while fathoming an intricate problem, would have some difficulty, as the article in question requires the use of both hands; as would also some stout members of our staff who, because of their corpulence, would find it impossible to

get into close enough proximity with this new departure.

However, these objectionable features are easily surmountable, and considering its many advantages, we venture the opinion that it is merely a matter of time when the ouija board will be added to the Ever-ready pencil and tortoise-rimmed glasses on the list of "essential accounting equipment."

QUESTIONS AND ANSWERS

The following have been selected as the best answers submitted to the tax questions in the March issue of the *Journal*. The fact that two out of these three answers came from one office—Chicago—should be an incentive to the men of each of the other offices to endeavor to secure like laurels for their office in the Questions and Answers department of future issues of the *Journal*.

Questions are invited from members of the staff, not only on tax matters but on any phase of accountancy.

1. There appear to be but two classifications in which the payment of taxes by the husband can be placed:

First, as rent or in lieu of rent for the residence.

Second, as a gift to the wife.

If considered as rent or in lieu of rent, the taxes are not deductible by the husband because rent paid for residence property is a personal expense, under section 215 (a), and is not deductible. As the taxes are paid on behalf of the wife she would be entitled to deduct them in her tax return but she also would have to report them as income in the guise of the rent received from the husband. The net result would be no permissible deduction to either in respect of the taxes paid.

If considered as a gift to the wife, the husband could not deduct the payment and the wife need not report it as income. She could, however, take the taxes paid as a deduction.

These conclusions apply whether

the property is the residence of the husband and wife or whether it produces income for the wife except that in the latter case the consideration of treating the taxes as rent paid by the husband would be eliminated. If the husband rented the income producing property from the wife for use in his business the relationship of landlord and tenant would then exist.

To conclude that the husband, when separate returns are filed, could deduct taxes paid by him on his wife's property would by logical extension of such reasoning permit shifting of income and deductions between husband and wife so as to equalize their taxable incomes and thereby evade the higher rates of surtaxes. Outside of permitting the choice of filing joint or individual returns and of splitting the specific exemption the law does not differentiate between husband and wife, and other individuals. A husband and wife have no privileges that other individuals do not have in the eyes of the revenue law and to conclude that a husband could deduct expenses paid for his wife would imply that any individual could deduct expenses paid for any other individual.

D. J. MACDONALD.

Chicago Office

2. Payments of salary or other remuneration to corporation officers, are made, presumptively, for a valuable consideration.

The Treasury Department in disallowing such payments, usually does so on the ground that the consideration therefor is stock ownership rather than services rendered.

By disallowing the payment the Treasury Department negatives the presumption that it is in consideration of services rendered. If the payment bears no relations to stock holdings, it cannot logically be considered a dividend.

Under such circumstances, therefore, there is no consideration for the

payment, and the recipient should for income tax purposes be entitled to regard it as a gift.

JAMES J. GILGALLON
Chicago Office

Editor's Note: The concluding paragraph of an answer by Mr. N. L. Burton of the Chicago Office to Question No. 2 is also produced for its reference to Treasury regulations on this subject:

* * * It seems only fair to consider the disallowed compensation to an officer of a corporation, who is also one of its minor stockholders, as a gift to him, when the facts governing the disallowance do not clearly indicate its proper inclusion under any of the classifications enumerated by Articles 105 and 106 or Regulations 45 Rev.

3. The general manager agrees in his contract with the corporation to furnish it two things; first, services, and second, insurance protection for the corporation. Consequently, the payments he receives are really payment in part for services, and in part for insurance protection. It follows that the manager is entitled to deduct the insurance premium as cost of what he furnishes to the corporation under his contract, and hence a reduction of his income from the contract. It also follows, under Section 215 d of the Revenue Act of 1918, that the corporation should not be permitted to deduct the \$1,200.00 which is really paid for insurance on the life of an employee, when the taxpayer is directly a beneficiary under the policy.

E. E. WAKEFIELD, JR.
Boston Office

COMMENDATIONS

"We want to take advantage of this opportunity of expressing to you our deep appreciation of the prompt and efficient manner in which your representatives have handled this year's report."—(Mr. Bourne in charge).

"We want to express our gratification at the satisfactory way in which the work of auditing our accounts was performed."—(Mr. Beaujon in charge.)

"May we take this opportunity to compliment you upon the character of the men employed in the audit of our books and upon the highly efficient manner in which they performed their work?"—(Mr. Halter in charge).

"Above all, I want to congratulate you on Mr. Rogers. He is one of the cleanest cut, hardest working and most tactful young men I have seen in his line, and I am sure he will grow to be a most valuable member of your staff. It was a real pleasure to have him around."—(Boston office.)

ANNUAL MEETINGS OF SOCIETIES.

The annual meeting of the American Institute of Accountants will be held in Washington, D. C., on September 21st and 22nd, 1920.

The annual meeting of the National Association of Cost Accountants will be held in Atlantic City, N. J., on September 23rd and 24th, 1920.





